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A.C. Moore Arts & Crafts, Inc.

Form 10-Q

March 27, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For The Quarterly Period Ended September 30, 2007**

*OR*

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number: 000-23157**

**A.C. MOORE ARTS & CRAFTS, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

**22-3527763**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**130 A.C. Moore Drive, Berlin, NJ 08009**

(Address of principal executive offices) (Zip Code)

**(856) 768-4930**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Outstanding at March 14, 2008

Common Stock, no par value

20,298,601



**A.C. MOORE ARTS & CRAFTS, INC.**  
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**Table of Contents****Explanatory Note**

*As used herein, unless the context otherwise requires, all references to A.C. Moore, the Company, we, our, us and similar terms in this report refer to A.C. Moore Arts & Crafts, Inc. together with its wholly-owned subsidiaries.*

On October 24, 2007, the Audit Committee of our Board of Directors, in consultation with management, determined that the financial statements for the years ended December 31, 2004, 2005 and 2006 contained in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly reports on Form 10-Q for the first, second and third quarters of 2006 and the first and second quarters of 2007 should be restated due to an error in the formula used to value the Company's store inventories under the retail inventory method ( RIM ).

Correction of our inventory valuation resulted in a restatement of our financial statements for the periods including and prior to the six months ended June 30, 2007 as contained in this quarterly report on Form 10-Q. The total adjustment through June 30, 2007 relating to the correction of the RIM error was a reduction in net income of \$13.2 million, net of an income tax benefit of \$7.4 million. In addition, the restated financial statements also reflect an adjustment to amounts previously reported related to the timing of recognition of internal transfer costs on imported merchandise. The total adjustment through June 30, 2007 relating to the internal transfer costs was a reduction to net income of \$2.8 million, net of an income tax benefit of \$1.6 million.

**Effects of Restatement**

The following table provides a summary of selected line items from our Consolidated Statements of Operations for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 affected by this restatement. See Note 1 in our Notes to Consolidated Financial Statements for tables that reconcile our previously reported amounts to the restated amounts and for a more detailed description of the adjustments underlying the restatement. The impact on gross margin from this restatement in any quarter was less than 1% of sales. There is no impact on total operating cash flows resulting from this restatement.

	<b>Summary Statement of Operations</b>		
	(In thousands except per share data)		
	<b>Six Months Ended June 30, 2007</b>	<b>Years Ended December 31, 2006                      2005</b>	
<b>As previously reported:</b>			
Cost of sales	\$ 151,727	\$ 358,725	\$ 326,581
Income before taxes	363	4,543	16,068
Net income	229	2,434	10,042
Earnings per share	0.01	0.12	0.50
<b>As restated:</b>			
Cost of sales	\$ 152,429	\$ 362,678	\$ 328,565
Income (loss) before taxes	(339)	590	14,084
Net income (loss)	(214)	(406)	8,901
Earnings (loss) per share	(0.01)	(0.02)	0.44
<b>Correction of inventory valuation adjustments:</b>			
Cost of sales	\$ 702	\$ 3,953	\$ 1,984
(Loss) before taxes	(702)	(3,953)	(1,984)
Net (loss)	(443)	(2,840)	(1,141)
(Loss) per share	(0.02)	(0.14)	(0.06)

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****A.C. MOORE ARTS & CRAFTS, INC.  
CONSOLIDATED BALANCE SHEETS**(In thousands)  
(unaudited)

	<b>September 30, 2007</b>	<b>December 31, 2006 (as restated)</b>	<b>September 30, 2006 (as restated)</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 43,133	\$ 76,120	\$ 22,224
Inventories	142,042	122,450	151,384
Prepaid expenses and other current assets	6,622	7,653	4,991
Prepaid and receivable income taxes	6,973		4,533
Deferred tax assets	5,655	11,364	9,313
	204,425	217,587	192,445
Non-current assets:			
Property and equipment, net	97,894	95,268	93,759
Other assets	2,213	1,409	1,471
	<b>\$ 304,532</b>	<b>\$ 314,264</b>	<b>\$ 287,675</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Current portion of long-term debt	\$ 2,571	\$ 2,571	\$ 2,571
Trade accounts payable	41,392	48,703	37,973
Accrued payroll and payroll taxes	3,013	3,011	2,507
Accrued expenses	16,151	17,336	12,262
Accrued lease liability	1,413	825	1,143
Income taxes payable	87	1,935	
	64,627	74,381	56,456
Non-current assets:			
Long-term debt	19,714	21,643	22,286
Deferred tax liability and other	6,196	6,605	7,460
Accrued lease liability	19,254	19,430	17,025
	45,164	47,678	46,771
	109,791	122,059	103,227

Commitments and contingencies

Shareholders' equity:

Preferred stock, no par value, 10,000,000 shares authorized;  
none issued

Common stock, no par value, 40,000,000 shares authorized;  
shares issued and outstanding 20,298,601 and 20,167,098 at  
September 30, 2007 and December 31, 2006, respectively

Accumulated other comprehensive (loss)

Retained earnings

122,355	118,218	115,389
(126)		
72,512	73,987	69,059
194,741	192,205	184,448
<b>\$ 304,532</b>	<b>\$ 314,264</b>	<b>\$ 287,675</b>

See accompanying notes to financial statements.

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands except per share data)

(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>(as restated)</b>		<b>(as restated)</b>
Net sales	\$ 122,608	\$ 128,936	\$ 382,427	\$ 391,669
Cost of sales (including buying and distribution costs)	69,929	76,621	222,358	234,765
Gross margin	52,679	52,315	160,069	156,904
Selling, general and administrative expenses	52,832	55,356	160,085	160,385
Costs related to change in management		888	435	2,915
Store pre-opening expenses	962	930	1,453	2,225
(Loss) from operations	(1,115)	(4,859)	(1,904)	(8,621)
Interest expense	351	403	1,062	1,161
Interest (income)	(430)	(187)	(1,591)	(819)
(Loss) before income taxes	(1,036)	(5,075)	(1,375)	(8,963)
(Benefit of) income taxes	(382)	(2,055)	(507)	(3,630)
Net (loss)	\$ (654)	\$ (3,020)	\$ (868)	\$ (5,333)
Basic net (loss) per share	\$ (0.03)	\$ (0.15)	\$ (0.04)	\$ (0.27)
Diluted net (loss) per share	\$ (0.03)	\$ (0.15)	\$ (0.04)	\$ (0.27)
Basic weighted average shares outstanding	20,275	19,916	20,230	19,873
Diluted weighted average shares outstanding	20,275	19,916	20,230	19,873

See accompanying notes to financial statements.



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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
		<b>(as</b>
		<b>restated)</b>
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (868)	(5,333)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,413	8,930
Stock-based compensation expense	2,083	2,528
Provision for (benefit of) deferred income taxes, net	4,565	(1,543)
Changes in assets and liabilities:		
Inventories	(19,592)	(19,087)
Prepaid expenses and other current assets	1,031	1,909
Income taxes receivable	(6,973)	
Accounts payable, accrued payroll and payroll taxes and accrued expenses	(8,494)	(7,675)
Accrued lease liability	412	842
Income taxes payable	(1,847)	(6,212)
Other	(803)	(65)
Net cash (used in) operating activities	(20,073)	(25,706)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(13,039)	(14,591)
Proceeds from maturation of marketable securities		5,224
Cash flows (used in) investing activities	(13,039)	(9,367)
<b>Cash flows from financing activities:</b>		
Exercise of stock options	1,626	850
Tax benefit of stock options	428	628
Repayment of long-term debt	(1,929)	(1,929)
Net cash provided by (used in) financing activities	125	(451)
Net decrease in cash and cash equivalents	(32,987)	(35,524)
Cash and cash equivalents at beginning of period	76,120	57,748
Cash and cash equivalents at end of period	\$ 43,133	\$ 22,224

See accompanying notes to financial statements.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. Restatement of Consolidated Financial Statements**

On October 24, 2007, the Audit Committee of our Board of Directors, in consultation with management, determined that the financial statements for the years ended December 31, 2004, 2005 and 2006 contained in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly reports on Form 10-Q for the first, second and third quarters of 2006 and the first and second quarters of 2007 should be restated due to an error in the formula used to value the Company's store inventories under the retail inventory method ( RIM ).

Correction of our inventory valuation resulted in a restatement of our financial statements for the periods including and prior to the six months ended June 30, 2007 as contained in this quarterly report on Form 10-Q. The total adjustment through June 30, 2007 relating to the correction of the RIM error was a reduction in net income of \$13.2 million, net of an income tax benefit of \$7.4 million. In addition, the restated financial statements also reflect an adjustment to amounts previously reported related to the timing of recognition of internal transfer costs on imported merchandise. The total adjustment through June 30, 2007 relating to the internal transfer costs was a reduction to net income of \$2.8 million, net of an income tax benefit of \$1.6 million.

*Correction of Retail Inventory Method*

Historically, the Company valued store inventory using the retail inventory method at each year end. We have determined that our historical retail inventory method contained an error in the calculation of the cost complement. The cost complement is a ratio of merchandise available for sale at cost to merchandise available for sale at its original retail selling price. The cost complement is then multiplied by ending inventory at retail to determine ending inventory at cost. The error in our cost complement occurred when merchandise purchases were added to the retail cost pool at amounts less than the original retail selling price. This caused our cost complement to be higher than it should have been, and when multiplied by ending inventory at retail caused an overstatement in our ending cost inventory and an understatement of cost of sales. To correct these errors we recalculated our historical cost complements using a retail cost pool that reflected merchandise available for sale at original retail selling prices. There are certain items of income and expense, such as vendor cooperative advertising payments and freight and distribution costs, which are capitalized in ending inventory. The amount capitalized is directly related to the value of ending inventory so that when we adjusted our ending inventory to correct for the error in our cost complement, the capitalization of these items were adjusted accordingly.

The following table provides the effects of corrections to our retail inventory method and the capitalization of associated items of income and expense on certain line items within the Consolidated Statements of Operations.

Impact of Correction to Retail Inventory Method

(In thousands)

	<b>Six Months Ended June 30, 2007</b>	<b>Years Ended December 31,</b>	
	(unaudited)	<b>2006</b>	<b>2005</b>
Cost of sales	\$ 702	\$ 3,043	\$ 1,437
(Loss) before taxes	(702)	(3,043)	(1,437)
Tax benefit	259	857	610
Net (loss)	(443)	(2,186)	(827)

*Recognition of Internal Transfer Costs Included in the Value of Imported Merchandise*

The Company historically adds an internal markup to the transfer costs allocated to the value of imported merchandise. This internal markup was used to normalize the gross margin on imported merchandise which typically has a higher gross margin than similar merchandise purchased from domestic sources. This internal markup increases

the cost of goods sold when the merchandise is sold. Accordingly, it is necessary to eliminate this internal markup from cost of goods sold to properly reflect gross margin and inventory. Historically, the Company has used purchase activity to estimate the amount of imported merchandise on hand at the end of each period and then used this estimate to calculate the amount of internal markup that needed to be reversed from inventory and cost of goods sold. During December 2007, the Company took a SKU-level inventory in all of its retail stores for the first time. Using this information the Company was able to determine the amount of import merchandise on hand. This information along with other historical data has enabled us to correct our previously reported estimates of the cost value of import merchandise in inventory.

The following table provides the effect of our restatement of the correction of internal transfer costs in ending inventory to certain line items within the Consolidated Statements of Operations.

Impact of Correction to Internal Transfer Costs in Ending Inventory

(In thousands)

	<b>Years Ended December</b>	
	<b>31,</b>	
	<b>2006</b>	<b>2005</b>
Cost of sales	\$ 910	\$ 547
(Loss) before taxes	(910)	(547)
Tax benefit	256	233
Net (loss)	(654)	(314)

**Table of Contents****Effects of Restatement**

The following tables set forth the effects of the restatement on previously reported Consolidated Balance Sheets, Statements of Operations, and Consolidated Statements of Cash Flows, for the first and second quarters of 2007, and the first, second and third quarters and years ended 2006 and 2005. The cumulative adjustment that corrected beginning retained earnings for 2005 was \$11.6 million.

**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands except per share data)

	(unaudited)			For the Years Ended December 31,					
	Six Months Ended June 30, 2007			2006		2005			
	As	Correction of	As	As	Correction of	As	Correction of	As	As
	Previously Reported	Inventory Valuation	Restated	Previously Reported	Inventory Valuation	Restated	Previously Reported	Inventory Valuation	Restated
Net sales	\$259,819	\$	\$259,819	\$589,506	\$	\$589,506	\$539,436	\$	\$539,436
Cost of sales	151,727	702	152,429	358,725	3,953	362,678	326,581	1,984	328,565
Gross margin	108,092	(702)	107,390	230,781	(3,953)	226,828	212,855	(1,984)	210,871
Selling, general and administrative expenses	107,253		107,253	219,298		219,298	192,878		192,878
Costs related to change in management	435		435	3,376		3,376			
Store pre-opening expenses	491		491	3,241		3,241	3,459		3,459
Income (loss) from operations	(87)	(702)	(789)	4,866	(3,953)	913	16,518	(1,984)	14,534
Interest expense	711		711	1,547		1,547	1,234		1,234
Interest (income)	(1,161)		(1,161)	(1,224)		(1,224)	(784)		(784)
Income (loss) before income taxes	363	(702)	(339)	4,543	(3,953)	590	16,068	(1,984)	14,084
Provision for (benefit of) income taxes	134	(259)	(125)	2,109	(1,113)	996	6,026	(843)	5,183
	\$ 229	\$ (443)	\$ (214)	\$ 2,434	\$ (2,840)	\$ (406)	\$ 10,042	\$ (1,141)	\$ 8,901

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Net income  
(loss)

Basic net  
income

(loss) per share	\$	0.01	\$	(0.02)	\$	(0.01)	\$	0.12	\$	(0.14)	\$	(0.02)	\$	0.51	\$	(0.06)	\$	0.45
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Diluted net  
income

(loss) per share	\$	0.01	\$	(0.02)	\$	(0.01)	\$	0.12	\$	(0.14)	\$	(0.02)	\$	0.50	\$	(0.06)	\$	0.44
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Basic weighted  
average shares  
outstanding

20,229		20,229	19,929		19,929	19,758		19,758
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Diluted  
weighted  
average shares  
outstanding

20,356		20,229	20,019		19,929	20,149		20,149
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**Table of Contents****A.C. MOORE ARTS & CRAFTS, INC.  
CONSOLIDATED BALANCE SHEETS**

(In thousands)

(unaudited)

	March 31, 2007			June 30, 2007		
	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 67,757	\$	\$ 67,757	\$ 54,564	\$	\$ 54,564
Marketable securities						
Inventories	147,223	(24,667)	122,556	150,881	(25,003)	125,878
Prepaid expenses and other current assets	8,741		8,741	7,364		7,364
Prepaid income taxes				154		154
Deferred tax assets	3,000	8,867	11,867	3,224	8,987	12,211
	226,721	(15,800)	210,921	216,187	(16,016)	200,171
Non-current assets:						
Property and equipment, net	96,882		96,882	95,795		95,795
Other assets	1,318		1,318	1,763		1,763
	<b>\$324,921</b>	<b>\$(15,800)</b>	<b>\$309,121</b>	<b>\$313,745</b>	<b>\$(16,016)</b>	<b>\$297,729</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$ 2,571	\$	\$ 2,571	\$ 2,571	\$	\$ 2,571
Trade accounts payable	47,045		47,045	38,194		38,194
Accrued payroll and payroll taxes	2,884		2,884	2,833		2,833
Accrued expenses	15,030		15,030	13,119		13,119
Accrued lease liability	756		756	1,313		1,313
Income taxes payable	617		617			
	68,903		68,903	58,030		58,030

Non-current liabilities						
Long-term debt	21,000		21,000	20,357		20,357
Deferred tax liability and other	6,867		6,867	6,590		6,590
Accrued lease liability	19,184		19,184	18,366		18,366
	47,051		47,051	45,313		45,313
	115,954		115,954	103,343		103,343
Commitments and contingencies						
Shareholders' equity:						
Preferred stock, no par value, 10,000,000 shares authorized; none issued						
Common stock, no par value, 40,000,000 shares authorized; issued and outstanding 20,188,466 and 20,251,633 shares at March 31, 2007 and June 30, 2007, respectively						
	119,443		119,443	120,992		120,992
Other comprehensive income						
				229		229
Retained earnings	89,524	(15,800)	73,724	89,181	(16,016)	73,165
	208,967	(15,800)	193,167	210,402	(16,016)	194,386
	<b>\$324,921</b>	<b>\$(15,800)</b>	<b>\$309,121</b>	<b>\$313,745</b>	<b>\$(16,016)</b>	<b>\$297,729</b>



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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands except per share data)

(unaudited)

2007	Three Months Ended March 31, 2007			Three Months Ended June 30, 2007		
	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated
Net sales	\$ 135,380	\$	\$ 135,380	\$ 124,439	\$	\$ 124,439
Cost of sales	79,703	366	80,069	72,024	336	72,360
Gross margin	55,677	(366)	55,311	52,415	(336)	52,079
Selling, general and administrative expenses	54,393		54,393	52,860		52,860
Costs related to change in management	290		290	145		145
Store pre-opening expenses	314		314	177		177
Income (loss) from operations	680	(366)	314	(767)	(336)	(1,103)
Interest expense	352		352	359		359
Interest (income)	(585)		(585)	(576)		(576)
Income (loss) before income taxes	913	(366)	547	(550)	(336)	(886)
Provision for (benefit of) income taxes	341	(139)	202	(207)	(120)	(327)
Net income (loss)	\$ 572	\$ (227)	\$ 345	\$ (343)	\$ (216)	\$ (559)
Basic net income (loss) per share	\$ 0.03	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ (0.01)	\$ (0.03)
Diluted net income (loss) per share	\$ 0.03	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ (0.01)	\$ (0.03)
Basic weighted average shares outstanding	20,180		20,180	20,229		20,229
Diluted weighted average shares outstanding	20,279		20,279	20,229		20,229

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(unaudited)

2007	Three Months Ended March 31,			Six Months Ended June 30,		
	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated
<b>Cash flows from operating activities:</b>						
Net income (loss)	\$ 572	(227)	\$ 345	\$ 229	(443)	\$ (214)
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	3,473		3,473	6,920		6,920
Stock-based compensation expense	981		981	1,432		1,432
Loss on disposal of assets						
Provision for (benefit of) deferred income taxes, net	(710)	(139)	(849)	(1,345)	(259)	(1,604)
Changes in assets and liabilities:						
Inventories	(472)	366	(106)	(4,130)	702	(3,428)
Prepaid expenses and other current assets	(1,088)		(1,088)	289		289
Accounts payable, accrued payroll and payroll taxes and accrued expenses	(4,091)		(4,091)	(14,904)		(14,904)
Accrued lease liability	(315)		(315)	(576)		(576)
Income taxes payable	(1,318)		(1,318)	(2,089)		(2,089)
Other	91		91	9		9
Net cash (used in) operating activities	(2,877)		(2,877)	(14,165)		(14,165)
<b>Cash flows from investing activities:</b>						
Capital expenditures	(5,087)		(5,087)	(7,447)		(7,447)

Cash flows (used in) investing activities	(5,087)	(5,087)	(7,447)	(7,447)
<b>Cash flows from financing activities:</b>				
Exercise of stock options	149	149	1,056	1,056
Tax benefit of stock options	95	95	286	286
Repayment of long-term debt	(643)	(643)	(1,286)	(1,286)
Net cash provided by (used in) by financing activities	(399)	(399)	56	56
Net (decrease) in cash and cash equivalents	(8,363)	(8,363)	(21,556)	(21,556)
Cash and cash equivalents at beginning of period	76,120	76,120	76,120	76,120
Cash and cash equivalents at end of period	\$ 67,757	\$ 67,757	\$ 54,564	\$ 54,564

**Table of Contents****A.C. MOORE ARTS & CRAFTS, INC.  
CONSOLIDATED BALANCE SHEETS**

(In thousands)

	(unaudited) March 31, 2006			(unaudited) June 30, 2006			(unaudited) September 30, 2006			December 31,	
	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation
Assets:											
Cash	\$ 45,853		\$ 45,853	\$ 24,716		\$ 24,716	\$ 22,224		\$ 22,224	\$ 76,120	\$
Securities	1,500		1,500								
	164,901	(21,034)	143,867	176,068	(21,704)	154,364	173,754	(22,370)	151,384	146,751	(24,301)
Prepaid expenses and other assets	5,546		5,546	5,688		5,688	4,991		4,991	7,653	
Income taxes	478		478	2,134		2,134	4,533		4,533		
Other assets	1,334	7,890	9,224	981	8,176	9,157	845	8,468	9,313	2,636	8,728
	219,612	(13,144)	206,468	209,587	(13,528)	196,059	206,347	(13,902)	192,445	233,160	(15,573)
Liabilities:											
Accounts payable and other liabilities	89,748		89,748	91,834		91,834	93,759		93,759	95,268	
	1,367		1,367	1,390		1,390	1,471		1,471	1,409	
	\$310,727	\$(13,144)	\$297,583	\$302,811	\$(13,528)	\$289,283	\$301,577	\$(13,902)	\$287,675	\$329,837	\$(15,573)
<b>LIABILITIES AND EQUITY</b>											
Liabilities:											
Accounts payable and other liabilities	\$ 2,571		\$ 2,571	\$ 2,571		\$ 2,571	\$ 2,571		\$ 2,571	\$ 2,571	\$
	47,998		47,998	41,002		41,002	37,973		37,973	48,703	
Payroll and other liabilities	2,586		2,586	2,480		2,480	2,507		2,507	3,011	
Other liabilities	9,039		9,039	9,939		9,939	12,262		12,262	17,336	
	65		65	1,143		1,143	1,143		1,143	825	

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Accounts payable												1,935
	62,259		62,259	57,135		57,135	56,456		56,456			74,381
Debt	23,572		23,572	22,929		22,929	22,286		22,286			21,643
Liability	7,925		7,925	7,430		7,430	7,460		7,460			6,605
Expense	17,200		17,200	16,259		16,259	17,025		17,025			19,430
	48,697		48,697	46,618		46,618	46,771		46,771			47,678
	110,956		110,956	103,753		103,753	103,227		103,227			122,059
Assets and												
Equity:												
Stock, no												
Shares												
none												
Stock, no												
Shares												
issued												
ending												
and												
Shares at												
June 30,												
2005 and												
June 30, 2006,												
	112,395		112,395	113,451		113,451	115,389		115,389			118,218
Earnings	87,376	(13,144)	74,232	85,607	(13,528)	72,079	82,961	(13,902)	69,059	89,560	(15,573)	
	199,771	(13,144)	186,627	199,058	(13,528)	185,530	198,350	(13,902)	184,448	207,778	(15,573)	
	<b>\$310,727</b>	<b>\$(13,144)</b>	<b>\$297,583</b>	<b>\$302,811</b>	<b>\$(13,528)</b>	<b>\$289,283</b>	<b>\$301,577</b>	<b>\$(13,902)</b>	<b>\$287,675</b>	<b>\$329,837</b>	<b>\$(15,573)</b>	

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands except per share data)  
(unaudited)

	Three Months Ended March 31, 2006			Three Months Ended June 30, 2006			Three Months Ended September 30, 2006			Three Months Ended December 31, 2006		
	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated
Sales	\$ 132,918	\$	\$ 132,918	\$ 129,815	\$	\$ 129,815	\$ 128,936	\$	\$ 128,936	\$ 197,837	\$	\$ 197,837
Cost of sales	79,765	686	80,451	77,023	670	77,693	75,955	666	76,621	125,984	1,931	127,915
Gross margin	53,153	(686)	52,467	52,792	(670)	52,122	52,981	(666)	52,315	71,853	(1,931)	69,922
Operating, selling, and administrative expenses	51,844		51,844	53,185		53,185	55,356		55,356	58,913		58,913
Depreciation and amortization related to management	216		216	1,811		1,811	888		888	458		458
Opening inventory	624		624	671		671	930		930	1,016		1,016
Income from operations	469	(686)	(217)	(2,875)	(670)	(3,545)	(4,193)	(666)	(4,859)	11,466	(1,931)	9,535
Interest expense	368		368	390		390	403		403	386		386
Income (loss) before income taxes	(315)		(315)	(317)		(317)	(187)		(187)	(404)		(404)
Income (loss) before income taxes	416	(686)	(270)	(2,948)	(670)	(3,618)	(4,409)	(666)	(5,075)	11,484	(1,931)	9,553
Provision for income taxes	166	(275)	(109)	(1,179)	(286)	(1,465)	(1,764)	(291)	(2,055)	4,886	(260)	4,626
Income (loss)	\$ 250	\$ (411)	\$ (161)	\$ (1,769)	\$ (384)	\$ (2,153)	\$ (2,645)	\$ (375)	\$ (3,020)	\$ 6,598	\$ (1,671)	\$ 4,927
Income (loss) per share	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.09)	\$ (0.02)	\$ (0.11)	\$ (0.13)	\$ (0.02)	\$ (0.15)	\$ 0.33	\$ (0.08)	\$ 0.16

Net  
income  
per

Adjusted net  
income  
per

\$ 0.01 \$ (0.02) \$ (0.01) \$ (0.09) \$ (0.02) \$ (0.11) \$ (0.13) \$ (0.02) \$ (0.15) \$ 0.33 \$ (0.08) \$

Weighted  
average shares  
outstanding

19,838 19,838 19,857 19,857 19,916 19,916 20,086 20,086

Weighted  
average shares  
outstanding

20,070 19,838 19,857 19,857 19,916 19,916 20,192 20,192

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands except per share data)  
(unaudited)

	<b>Three Months Ended September 30,</b>			<b>Nine Months Ended September 30, 2006</b>		
	<b>As</b>	<b>2006</b>		<b>As</b>	<b>Correction</b>	
	<b>Previously</b>	<b>Correction</b>	<b>As Restated</b>	<b>Previously</b>	<b>of</b>	<b>As Restated</b>
	<b>Reported</b>	<b>Inventory</b>		<b>Reported</b>	<b>Inventory</b>	
		<b>Valuation</b>			<b>Valuation</b>	
Net sales	\$ 128,936	\$	\$ 128,936	\$ 391,669	\$	\$ 391,669
Cost of sales	75,955	666	76,621	232,743	2,022	234,765
Gross margin	52,981	(666)	52,315	158,926	(2,022)	156,904
Selling, general and administrative expenses	55,356		55,356	160,385		160,385
Costs related to change in management	888		888	2,915		2,915
Store pre-opening expenses	930		930	2,225		2,225
(Loss) from operations	(4,193)	(666)	(4,859)	(6,599)	(2,022)	(8,621)
Interest expense	403		403	1,161		1,161
Interest (income)	(187)		(187)	(819)		(819)
(Loss) before income taxes	(4,409)	(666)	(5,075)	(6,941)	(2,022)	(8,963)
(Benefit of) income taxes	(1,764)	(291)	(2,055)	(2,777)	(853)	(3,630)
Net (loss)	\$ (2,645)	\$ (375)	\$ (3,020)	\$ (4,164)	\$ (1,169)	\$ (5,333)
Basic net (loss) per share	\$ (0.13)	\$ (0.02)	\$ (0.15)	\$ (0.21)	\$ (0.06)	\$ (0.27)
Diluted net (loss) per share	\$ (0.13)	\$ (0.02)	\$ (0.15)	\$ (0.21)	\$ (0.06)	\$ (0.27)
Basic weighted average shares outstanding	19,916		19,916	19,873		19,873
Diluted weighted average shares outstanding	19,916		19,916	19,873		19,873





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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	(unaudited) Three Months Ended March 31, 2006			(unaudited) Six Months Ended June 30, 2006			(unaudited) Nine Months Ended September 30, 2006			Twelve Months Ended December 31, 2006		
	As Previously Reported	Correction of Inventory Valuation	Restated	As Previously Reported	Correction of Inventory Valuation	Restated	As Previously Reported	Correction of Inventory Valuation	Restated	As Previously Reported	Correction of Inventory Valuation	Restated
Operating activities:												
Income	\$ 250	(411)	\$ (161)	\$ (1,519)	(794)	\$ (2,313)	\$ (4,165)	(1,169)	\$ (5,333)	\$ 2,434	(2,840)	\$ (4,406)
Adjustments to reconcile income to cash provided by operating activities:												
Depreciation												
Amortization of intangible assets	2,873		2,873	5,850		5,850	8,930		8,930	12,281		12,281
Compensation expense on bonus accruals	699		699	1,734		1,734	2,528		2,528	3,077		3,077
Provision for (benefit of) deferred income taxes,										83		
Changes in assets and liabilities:												
Accounts receivable	(12,255)	686	(11,569)	(23,422)	1,356	(22,066)	(21,108)	2,022	(19,086)	5,895	3,953	9,848
Prepaid expenses and other current assets	1,354		1,354	(922)		(922)	1,909		1,909	(753)		(753)

counts									
able,									
rned									
roll and									
roll taxes									
accrued									
enses	(794)	(794)	(6,996)	(6,996)	(7,675)	(7,675)	8,633		8,6
rned lease									
ility	(62)	(62)	75	75	842	842	2,928		2,9
ome taxes									
able	(2,157)	(2,157)	(1,679)	(1,679)	(6,212)	(6,212)	256		2
er	40	40	17	17	(65)	(65)	(2)		
cash									
vided by									
d in)									
rating									
vities	(10,766)	(10,766)	(27,719)	(27,719)	(25,706)	(25,705)	31,496		31,4
<b>h flows</b>									
<b>m</b>									
<b>esting</b>									
<b>vities:</b>									
ital									
enditures	(4,523)	(4,523)	(9,586)	(9,586)	(14,591)	(14,591)	(19,534)		(19,5
ceeds from									
uration of									
ketable									
vities	3,724	3,724	5,224	5,224	5,224	5,224	5,224		5,2
h flows									
d in)									
esting									
vities	(799)	(799)	(4,362)	(4,362)	(9,367)	(9,367)	(14,310)		(14,3
<b>h flows</b>									
<b>m</b>									
<b>ncing</b>									
<b>vities:</b>									
rcise of									
nk options	208	208	216	216	850	850	2,152		2,1
benefit of									
nk options	105	105	119	119	628	628	1,606		1,6
ayment of									
g-term									
t	(643)	(643)	(1,286)	(1,286)	(1,929)	(1,929)	(2,572)		(2,5
cash	(330)	(330)	(951)	(951)	(451)	(451)	1,186		1,1
vided by									

and in)									
ancing									
vities									
decrease									
ash and									
n									
ivalents	(11,895)	(11,895)	(33,032)	(33,032)	(35,524)	(35,524)	18,372		18,3
h and cash									
ivalents at									
inning of									
od	57,748	57,748	57,748	57,748	57,748	57,748	57,748		57,7
h and cash									
ivalents at									
of period	\$ 45,853	\$ 45,853	\$ 24,716	\$ 24,716	\$ 22,224	\$ 22,224	\$ 76,120	\$	\$ 76,1

**Table of Contents****A.C. MOORE ARTS & CRAFTS, INC.  
CONSOLIDATED BALANCE SHEETS**(In thousands)  
(unaudited)

	March 31, 2005			June 30, 2005			September 30, 2005			December 31,	
	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation	As Restated	As Previously Reported	Correction of Inventory Valuation
Assets:											
Cash	\$ 30,028		\$ 30,028	\$ 22,229		\$ 22,229	\$ 15,701		\$ 15,701	\$ 57,748	\$
Securities	17,835		17,835	14,237		14,237	12,554		12,554	5,224	
	145,525	(18,691)	126,834	154,019	(18,994)	135,025	166,997	(19,300)	147,697	152,646	(20,348)
Expenses and net assets	7,245		7,245	6,567		6,567	6,415		6,415	6,900	
Income taxes	1,770		1,770	3,946		3,946	5,473		5,473		
Net assets	586	6,906	7,492	258	7,024	7,282	47	7,134	7,181	734	7,615
	202,989	(11,786)	191,203	201,256	(11,970)	189,286	207,187	(12,166)	195,021	223,252	(12,733)
Liabilities:											
Accounts payable	81,716		81,716	83,060		83,060	87,089		87,089	88,098	
Other liabilities	1,131		1,131	1,398		1,398	1,432		1,432	1,407	
	\$285,836	\$(11,786)	\$274,050	\$285,714	\$(11,970)	\$273,744	\$295,708	\$(12,166)	\$283,542	\$312,757	\$(12,733)
<b>NET ASSETS AND HOLDERS</b>											
Liabilities:											
Accounts payable	\$ 2,571		\$ 2,571	\$ 2,571		\$ 2,571	\$ 2,571		\$ 2,571	\$ 2,571	\$
Other liabilities	36,822		36,822	34,432		34,432	45,225		45,225	46,445	
Payroll and expenses	3,062		3,062	4,329		4,329	2,878		2,878	3,928	
Other expenses	6,519		6,519	6,211		6,211	7,496		7,496	10,044	
							65		65	153	

Accounts payable												1,679
	48,974		48,974	47,543		47,543	58,235		58,235			64,820
Debt	26,143		26,143	25,500		25,500	24,792		24,792			24,215
Bank liability	8,311		8,311	8,076		8,076	7,841		7,841			8,039
Lease	14,446		14,446	15,176		15,176	16,939		16,939			17,174
	48,900		48,900	48,752		48,752	49,572		49,572			49,428
	97,874		97,874	96,295		96,295	107,807		107,807			114,248
Assets and												
Liabilities												
Shareholders' equity:												
Common stock, no												
Preferred shares												
None												
Common stock, no												
Preferred shares												
Issued												
Outstanding												
and												
Preferred shares at												
June 30,												
2004 and												
June 30, 2005,												
	109,626		109,626	111,133		111,133	111,515		111,515			111,383
Earnings	78,336	(11,786)	66,550	78,286	(11,970)	66,316	76,386	(12,166)	64,220	87,126	(12,733)	
	187,962	(11,786)	176,176	189,419	(11,970)	177,449	187,901	(12,166)	175,735	198,509	(12,733)	
	<b>\$285,836</b>	<b>\$(11,786)</b>	<b>\$274,050</b>	<b>\$285,714</b>	<b>\$(11,970)</b>	<b>\$273,744</b>	<b>\$295,708</b>	<b>\$(12,166)</b>	<b>\$283,542</b>	<b>\$312,757</b>	<b>\$(12,733)</b>	

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands except per share data)  
(unaudited)

	Three Months Ended March 31, 2005			Three Months Ended June 30, 2005			Three Months Ended September 30, 2005			Three Months Ended December 31, 2005		
	As Reported	Correction of Inventory Valuation	As Restated	As Reported	Correction of Inventory Valuation	As Restated	As Reported	Correction of Inventory Valuation	As Restated	As Reported	Correction of Inventory Valuation	As Restated
Sales	\$ 122,879	\$	\$ 122,879	\$ 113,489	\$	\$ 113,489	\$ 115,094	\$	\$ 115,094	\$ 187,974	\$	\$ 187,974
Cost of sales	74,751	327	75,078	67,800	302	68,102	68,402	307	68,709	115,628	1,048	116,676
Gross margin	48,128	(327)	47,801	45,689	(302)	45,387	46,692	(307)	46,385	72,346	(1,048)	71,298
Operating expenses, including administrative expenses	45,844		45,844	44,766		44,766	48,426		48,426	53,842		53,842
Change in opening inventory	161		161	944		944	1,194		1,194	1,160		1,160
Income from operations	2,123	(327)	1,796	(21)	(302)	(323)	(2,928)	(307)	(3,235)	17,344	(1,048)	16,296
Interest expense	258		258	292		292	331		331	353		353
Interest income	(197)		(197)	(231)		(231)	(129)		(129)	(227)		(227)
Income before income taxes	2,062	(327)	1,735	(82)	(302)	(384)	(3,130)	(307)	(3,437)	17,218	(1,048)	16,170
Provision for (benefit of) income taxes	810	(133)	677	(32)	(118)	(150)	(1,230)	(110)	(1,340)	6,478	(481)	5,997
Income	\$ 1,252	\$ (194)	\$ 1,058	\$ (50)	\$ (184)	\$ (234)	\$ (1,900)	\$ (197)	\$ (2,097)	\$ 10,740	\$ (567)	\$ 10,173
Income per share	\$ 0.06	\$ (0.01)	\$ 0.05	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.10)	\$ (0.01)	\$ (0.11)	\$ 0.53	\$ (0.03)	\$ 0.49

Net  
income  
per

Adjusted net  
income  
per

\$ 0.06 \$(0.01) \$ 0.05 \$ (0.00) \$(0.01) \$ (0.01) \$ (0.10) \$(0.01) \$ (0.11) \$ 0.53 \$ (0.03) \$

Weighted  
average shares  
outstanding

19,669 19,669 19,743 19,743 19,808 19,808 19,816 19,816

Weighted  
average shares  
outstanding

20,209 20,209 19,743 19,743 19,808 19,808 20,105 20,105

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**A.C. MOORE ARTS & CRAFTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	(unaudited) Three Months Ended March 31, 2005			(unaudited) Six Months Ended June 30, 2005			(unaudited) Nine Months Ended September 30, 2005			Twelve Months Ended December 31, 2005		
	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated	As Reported	Correction of Inventory Valuation	Restated
<b>Cash flows from operating activities:</b>												
Net income (loss)	\$ 1,252	(194)	\$ 1,058	\$ 1,202	(378)	\$ 824	\$ (698)	(575)	\$ (1,273)	\$ 10,042	(1,141)	\$ 8,901
Adjustments to reconcile net income to net cash provided by operating activities:												
Depreciation and amortization	2,629		2,629	5,220		5,220	7,837		7,837	10,769		10,769
Stock-based compensation expense												
Loss on disposal of assets	438		438	438		438	438		438	438		438
Provision for (benefit of) deferred income taxes, net	1,814	(133)	1,681		(251)	(251)		(362)	(362)	(484)	(843)	(1,327)
Changes in assets and liabilities:												
Inventories	(2,693)	327	(2,366)	(11,187)	630	(10,557)	(24,165)	936	(23,229)	(9,814)	1,984	(7,830)
Prepaid expenses and other current assets	410		410	1,088		1,088	1,240		1,240	755		755

accounts payable, accrued payroll and payroll taxes and accrued expenses	(16,132)	(16,132)	(17,563)	(17,563)	(6,936)	(6,936)	(2,118)	(2,118)
accrued lease liability	651	651	1,381	1,381	3,144	3,144	3,532	3,532
income taxes payable	(5,094)	(5,094)	(4,501)	(4,501)	(5,840)	(5,840)	1,160	1,160
other	616	616	349	349	315	315	340	340
Net cash provided by (used in) operating activities	(16,109)	(16,109)	(23,573)	(23,573)	(24,665)	(24,665)	14,620	14,620
<b>Cash flows from investing activities:</b>								
capital expenditures	(1,564)	(1,564)	(5,499)	(5,499)	(12,145)	(12,145)	(16,086)	(16,086)
proceeds from maturation of marketable securities			3,598	3,598	5,004	5,004	22,570	22,570
investment in marketable securities	(277)	(277)	(277)	(277)			(10,236)	(10,236)
Cash flows used in investing activities	(1,841)	(1,841)	(2,178)	(2,178)	(7,141)	(7,141)	(3,752)	(3,752)

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